DOME
PETROLEUM LIMITED
ANNUAL REPORT
1976

DOME PETROLEUM LIMITED

DIRECTORS

NORMAN J. ALEXANDER,
Winnipeg, Manitoba
Investment Consultant

FRASER M. FELL, Q.C.,
Toronto, Ontario
Partner; Fasken & Calvin

JOHN P. GALLAGHER,*
Calgary, Alberta
Chairman of the Board

MACLEAN E. JONES, Q.C.,
Calgary, Alberta
Partner; Jones, Black & Company

JOHN L. LOEB,
New York, N.Y.
Chairman, Loeb Rhoades & Co. Inc

A. BRUCE MATTHEWS,
Toronto, Ontario
Chairman of the Board; Dome Mines Limited
Executive Vice-President;
Argus Corporation Limited

WILLIAM F. MORTON,*
Winchester, Mass.
Investment Manager

JAMES B. REDPATH,*
Toronto, Ontario
President; Dome Mines Limited

WILLIAM E. RICHARDS,*
Calgary, Alberta
President of the Company

FREDRICK W. SELLERS, **
Winnipeg, Manitoba
President; Spiroll Corporation Ltd.

* Executive Committee Member
** Elected to the Board of Directors May 6, 1976

OFFICERS

JOHN P. GALLAGHER,
Chairman of the Board and
Chief Executive

WILLIAM E. RICHARDS,
President

JOHN M. BEDDOME,
Senior Vice-President

CHARLES S. DUNKLEY,
Senior Vice-President

JOHN ANDRIUK,
Vice-President, Exploration

GRAHAM W. BENNETT,
Vice-President, Administration

DONALD R. GILLEY,
Vice-President, Corporate Planning

RAYMOND C. J. JAENEN,
Vice-President, Oil

ANDREW H. YOUNGER,
Vice-President, Gas

HENRY T. ASTLE,
Treasurer

HARRY M. EISENHAUER,
Secretary

ROBERT C. MUIR,
General Counsel

VICTOR J. ZALESCHUK,
Controller

GORDON R. HARRISON,
President, Canadian Marine Drilling Ltd.

AUDITORS

Clarkson, Gordon & Co.
Calgary, Alberta

STOCK LISTINGS

Toronto Stock Exchange
Montreal Stock Exchange
American Stock Exchange, Inc.

FORM 10-K

Copies of the Annual Report on Form 10-K filed with the Securities and Exchange Commission of the United States are available free of charge by writing to the Corporate Secretary of the Company.

HEAD OFFICE

333 - 7th Avenue S.W.,
3300 The Dome Tower,
Oxford Square,
P.O. Box 200,
Calgary, Alberta, Canada
T2P 2H8

FIELD OFFICES

BRITISH COLUMBIA

Fort St. John
Quesnel

ALBERTA

Consort
Edmonton
Empress
Paddle River
Rocky Mountain House
Vulcan

SASKATCHEWAN

Estevan
Kerrobert
Melville
Steelman

MANITOBA

Churchill
Flin Flon
Snow Lake
The Pas
Thompson

ONTARIO

Sarnia
Windsor

UNITED STATES

Denver, Colorado
Superior, Wisconsin

FRONT COVER

Two Canmar drillships, escorted by supply vessels and the Canmar Carrier, enroute to the Beaufort Sea during their historic 3,300 mile passage from British Columbia.

CONTENTS

COMPARATIVE HIGHLIGHTS

FINANCIAL

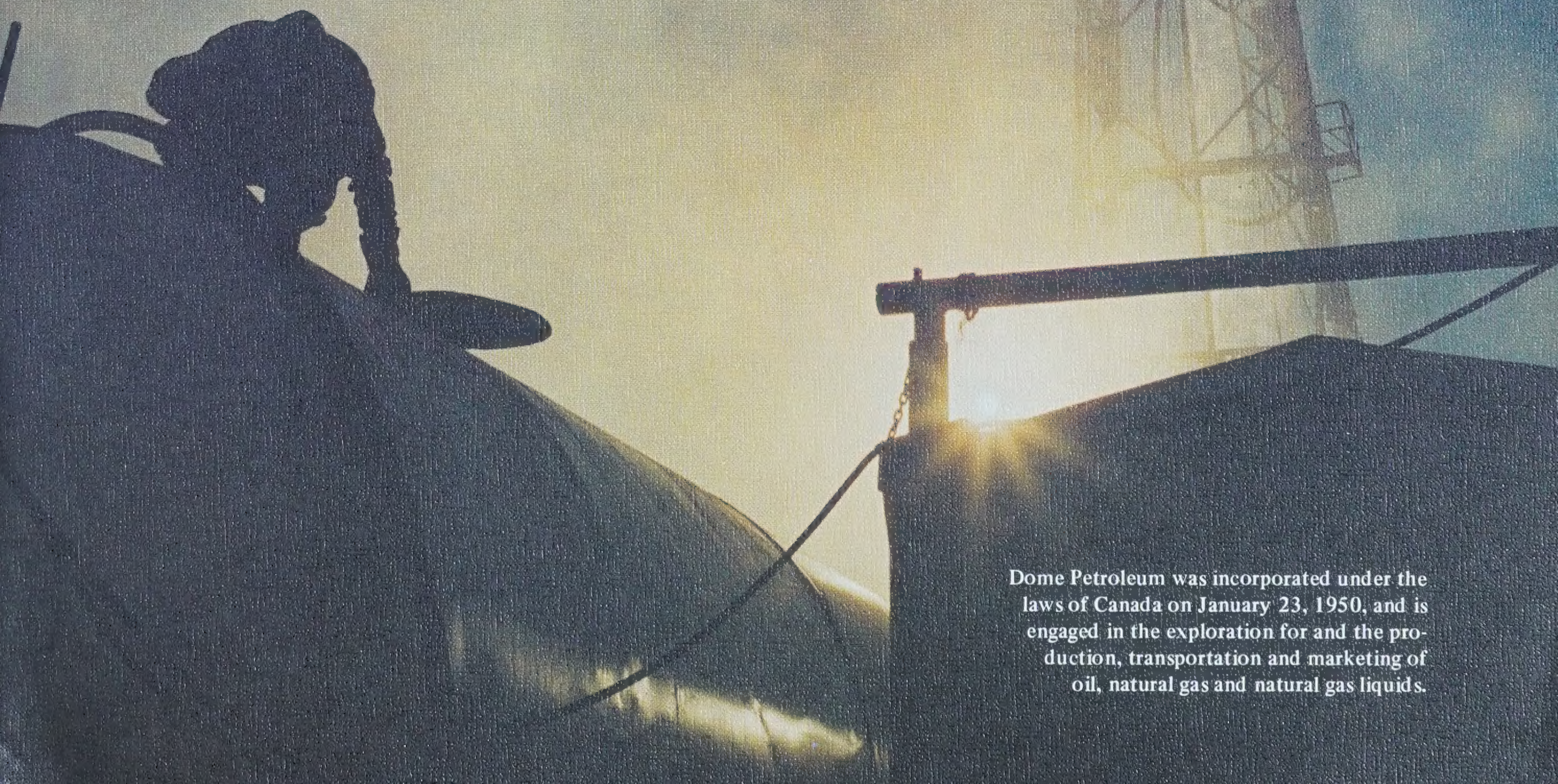
1976	1975	
$385,490,000	$234,669,000	Revenue
$109,806,000	$ 80,356,000	Cash Flow from Operations
$9.55	$7.14	Cash Flow Per Share
$ 91,275,000	$ 65,013,000	Earnings Before Deferred Income Taxes
$7.94	$5.78	Earnings Per Share Before Deferred Income Taxes
$ 55,254,000	$ 41,120,000	Net Earnings
$4.80	$3.65	Net Earnings Per Share
11,501,000	11,250,000	Average Shares Outstanding
$208,142,000	$190,904,000	Capital Expenditures*

OPERATING

1976	1975	
30,130	29,238	Oil and Natural Gas Liquids Production (barrels per day)
143.1	135.3	Gas Production (million cubic feet per day)
75,407	57,486	Natural Gas Liquids Sales (barrels per day)
307,600,000	239,600,000	Recoverable Reserves of Oil, Natural Gas Liquids, and Oil Equivalent of Gas (barrels)**
333	285	Wells Drilled
43,173,000	42,310,000	Land - Working Interest, Gross Acres
22,529,000	21,224,000	Land - Working Interest, Net Acres
26,570,000	34,364,000	Land - Gross Royalty Acres

* Includes investment in Panarctic Oils Ltd.

** Excludes heavy oil reserves at Hughenden and the Athabasca Oil Sands in Alberta, and over one trillion cubic feet of gas reserves in the Canadian Arctic Islands. The oil equivalent of gas is determined on the basis of relative prices.



Dome Petroleum was incorporated under the laws of Canada on January 23, 1950, and is engaged in the exploration for and the production, transportation and marketing of oil, natural gas and natural gas liquids.

REPORT OF THE DIRECTORS

During 1976, the strong growth trend established by Dome in the previous three years continued, with expansion in all segments of the Company's operations. Projects such as the Beaufort Sea drilling program and the Cochin Pipeline became a reality, and will considerably enhance the Company's growth and earnings potential.

Dome Petroleum is a Canadian company with approximately 60% of its shares held in Canada, and is committed to the development of Canada's energy resources. As an illustration of that commitment, the Company throughout its 27-year history has chosen to reinvest its entire cash flow and additional borrowings in the exploration for and development of crude oil and natural gas reserves, and in related transportation and support facilities almost exclusively in Canada.

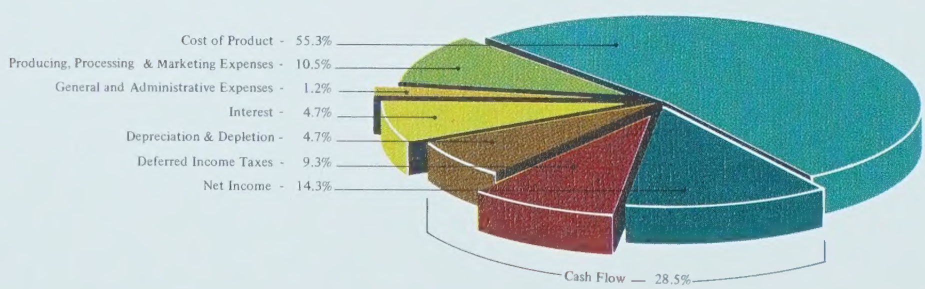
The Company has concentrated its efforts in those areas where it has the greatest knowledge and experience, both geologically and politically. Dome drilled the first well in the high Arctic based on its belief that this was an area that could provide North America with hydrocarbon self-sufficiency for many decades. Subsequent events have justified the Company's faith in the Arctic and Dome stands to benefit in the future from its extensive land holdings in the area.

During the year, the Company acquired 1,900,000 shares (29.5% of the outstanding shares) of Dome Mines Limited; 600,000 shares were acquired through a share exchange between the companies, and 1,300,000 shares were acquired through a public share purchase offer at $40 per share. The current market price for Dome Mines is $52 per share.

Dome Mines, in addition to its 26% share interest in Dome Petroleum, has a substantial cash and cash equivalent reserve and a controlling interest in a number of Canadian mining companies, including a 57% interest in Campbell Red Lake Mines Limited, Canada's premier gold producer. This acquisition of Dome Mines shares provides the Company with a significant indirect interest in the metal mining industry.

As a result of this share exchange and acquisition, both Dome Petroleum and Dome Mines are now classed as Canadian companies under the Foreign Investment Review Act. This Act restricts ineligible companies from making acquisitions and entering into new businesses in Canada without Federal Government approval.

DISTRIBUTION OF 1976 REVENUE



Highlights of the Company's operations in 1976 are as follows:

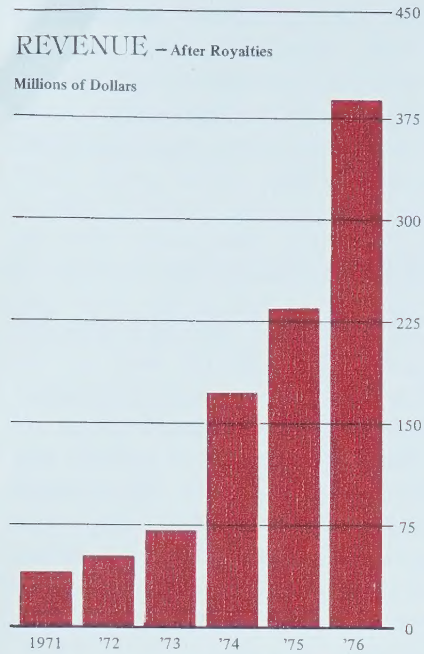
Revenue reached $385,490,000 compared to $234,669,000 in 1975. **Cash Flow** totalled $109,806,000 ($9.55 per share), compared to $80,356,000 ($7.14 per share) the previous year.

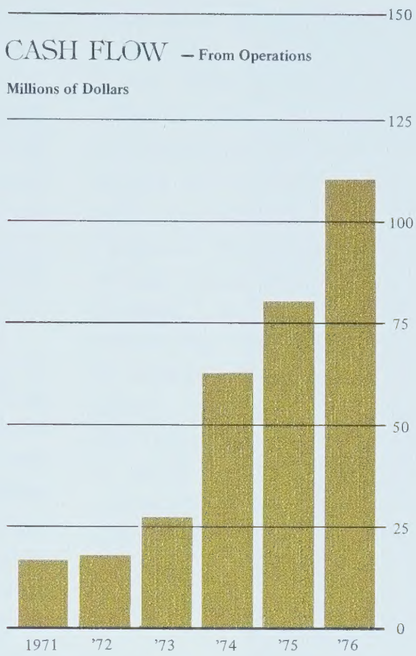
Earnings before deferred income taxes increased to $91,275,000 ($7.94 per share) from $65,013,000 ($5.78 per share) in 1975; while **Net Earnings** after provision for deferred income taxes increased to $55,254,000 ($4.80 per share) from $41,120,000 ($3.65 per share) in 1975.

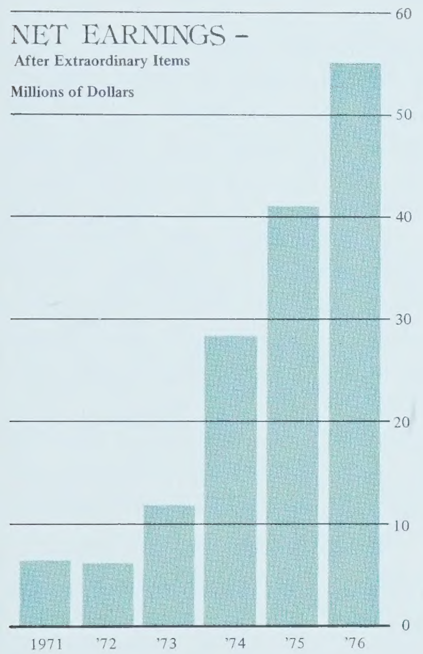
The 1976 **Net Return on Capital Invested** was 10%. The Company views this return as being inadequate, having regard to the rapidly increasing costs of finding and developing new reserves to replace production from present lower-cost reserves.

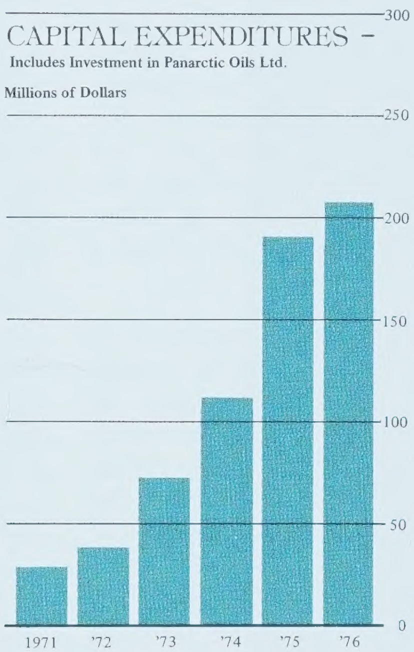
Deferred Income Taxes appearing on the Company's balance sheets do not represent an obligation of the Company. When Dome becomes subject to paying income taxes, it will pay tax only on the income in the year incurred, not on the income of prior years as long as the Company maintains a modest level of capital expenditures.

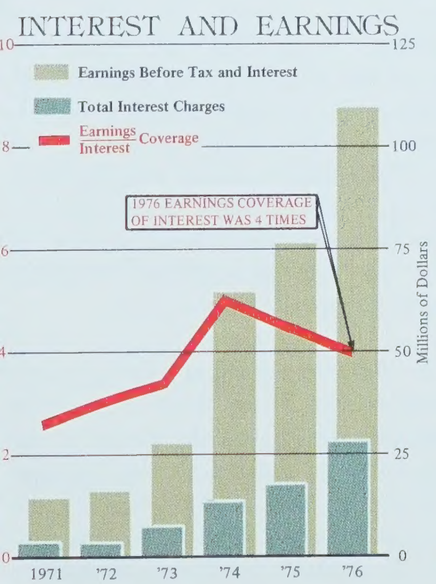
Capital Expenditures in 1976, including investment in Panarctic Oils Ltd., amounted to $208,142,000, compared with $190,904,000 in 1975. **Working Capital** amounted to $66,331,000 at year-end, compared with $47,250,000 in 1975.

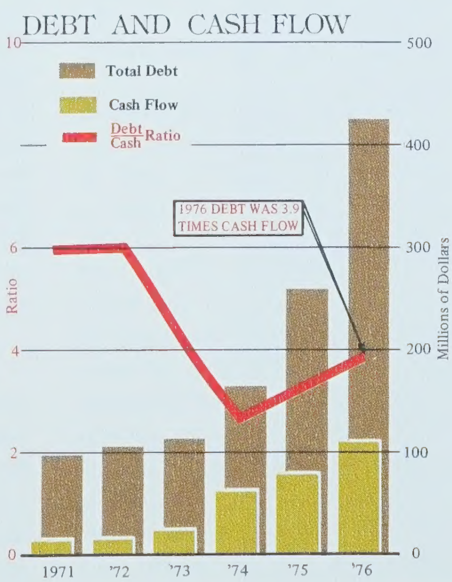












Along with these substantial increases in earnings, cash flow and capital investment, the Company added to its borrowings in 1976 to complete the Canmar drilling system and to commence construction of the Ethane Project and Cochin Pipeline System. Despite the new borrowings, **Total Debt** at year-end was still only 3.9 times 1976 cash flow, significantly lower than the six times cash flow which prevailed in the years 1971 and 1972. (See graph)

Earnings Coverage of total interest charges in 1976 was four times, compared to an average of three times during the period 1971-1973. (See graph)

Early in 1977, the Company reached agreement in principle with a group of insurance companies to issue $150 million of 20-year mortgage bonds to be used to refund existing term bank loans.

The Company's long term debt is offset by its substantial asset values including over 300 million barrels of recoverable oil, natural gas liquids and oil equivalent of gas reserves, over 22 million net acres of oil and gas lands, a natural gas liquids production, processing, transportation and distribution system, and natural gas liquids sales of over 75,000 barrels per day. The real value of these assets is not reflected in the Company's balance sheet which only recognizes the cost of these lands, reserves and facilities less depletion and depreciation charges.

Production of oil, natural gas liquids, and oil equivalent of natural gas averaged 45,600 barrels per day in 1976, compared to 39,312 barrels per day in 1975.

An extensive **Exploration and Development** drilling program was conducted in 1976 which included 95 gross exploratory wells (33 net wells) and 238 gross development wells (100 net wells). Exploration drilling resulted in the completion of five oil wells and 40 gas wells, of which 33 gas wells were located in Alberta, one oil and three gas wells in British Columbia, two oil wells in Saskatchewan, two oil wells and one gas well in the United States, and three gas wells in the Arctic.

In 1976, the Government of Alberta announced a program of reduced royalty and other incentives to encourage the development of additional oil reserves in Alberta through enhanced recovery programs. The Company's program for ethane injection into its Willesden Green field is one of three projects approved for incentives under the Government program.

In The Arctic Islands, Panarctic Oils Ltd., in which Dome holds a 4.26% interest, discovered about one trillion cubic feet of gas at its Jackson Bay well located in offshore waters between Ellef Ringnes Island and King Christian Island. Independent consultants recently estimated that marketable gas reserves in the Arctic Islands total 16.1 trillion cubic feet. Dome's share of these reserves, directly or through its interest in Panarctic, is in excess of one trillion cubic feet.

The Beaufort Sea is one of the most attractive drilling areas in the world for oil and gas potential. At one of the 1976 Canmar drillsites, a high pressure gas zone was encountered at 10,000 feet before operations were suspended for the season. The Company attaches considerable significance to this gas occurrence and further evaluation is scheduled for a later date.

The Government's decision to allow drilling in the Beaufort Sea is of great importance, not only to the Company but to Canada as a whole. Canada is currently entering a period of substantial deficiency in the production of petroleum hydrocarbons, which will result in the importation of large volumes of crude oil and add substantially to Canada's already serious deficit in its balance of payments. The oil and gas potential of Canada's frontier areas can contribute materially to the solution of Canada's energy and balance of payments problems. Exploratory potential means little in practical terms unless and until that potential can be confirmed by drilling. Thus, it is most important that the Government provide and sustain meaningful encouragement and incentives for the expansion of drilling operations in frontier areas.

Canadian Marine Drilling Ltd., Dome's wholly-owned offshore drilling subsidiary, successfully brought its drilling fleet into the Mackenzie Delta sector of the Beaufort Sea and spudded the first exploratory wells at three locations in the deeper offshore waters.

The Canmar fleet represents a $225 million investment in vessels, equipment and technology, all designed and developed expressly for drilling operations in Arctic waters. Canmar's vessels are the first Canadian flag drillships, and the first in the world to be specifically designed for the high Arctic. Through a broad research and development program, the Company is striving to advance its technology to the point that year-round drilling operations can be conducted under Arctic conditions.

The Ethane Project and Cochin Pipeline System, which Dome originally sponsored in 1971 and in which the Company will have a significant ownership, entered the construction phase in 1976. At mid-year, Dome executed the basic agreements with Dow Chemical of Canada, Limited and The Alberta Gas Trunk Line Company Limited. Work began on the Alberta gathering system which will carry ethane to an ethylene plant at Joffre, Alberta, and to Cochin's terminal at Fort Saskatchewan, Alberta. Although construction commenced on U.S. pipeline river crossings in 1976, the majority of Cochin Pipeline construction will occur in 1977, with startup scheduled for early 1978.

INDUSTRY OVERVIEW

The Company believes that the prospects for the oil and gas industry in Canada are favourable and that many opportunities are available for continued growth and enhancement of the Company's operations. It is the Company's intention to maintain its active exploration and development programs for Canadian oil and gas reserves.

Exploration activity in 1976 gave mixed results to the Canadian oil and gas industry. Western Canada exploratory activity achieved record levels, indicating a positive response to steps taken by the Federal and Provincial Governments in relaxing overly stringent tax and royalty measures previously imposed. In the Federal frontier areas, however, exploratory drilling activity declined in 1976, partly due to industry's concern over the continued absence of regulations governing exploration in Federal lands.

The Federal Government in 1976 announced an energy strategy for Canada which specified policies for energy self-reliance. These policies include, among other things, a continued closing of the gap between Canadian oil and gas prices and international price levels, a policy of at least doubling exploration and development activity in the Canadian frontier regions over the next three years, and a dedication toward the development of new oil and gas delivery systems under acceptable conditions.

In its 1976 budget, the Federal Government announced a positive measure which should assist in the financing of Canadian exploration activity. The budget allows individuals and non-resource companies to deduct 100% of Canadian

exploration expenses from taxable income until mid-1979. Because of the very high cost of frontier area exploration, the long lead times prior to production revenue from these areas, and the present relatively more attractive incentives in the provincial areas, further incentives are needed to achieve the goal of doubling exploration activity in frontier areas.

In a continuation of its policy to bring Canadian oil and natural gas prices up to international levels, the Federal Government increased the price of Canadian oil by $1.75 per barrel in two stages ($1.05 per barrel on July 1, 1976 and $0.70 per barrel on January 1, 1977), and the price of natural gas at the Toronto City Gate was increased by $0.25½ per thousand cubic feet in line with the increased oil prices. As a result of these increases, the average producer field price for oil and natural gas in Alberta is currently $9.75 per barrel and $1.20 per thousand cubic feet respectively. In British Columbia, oil price increases reflected the Federal increase; and gas prices were increased by $0.30 per thousand cubic feet on January 1, 1977 to $0.85 per thousand cubic feet for new gas. Since no royalties are payable on British Columbia gas production, the British Columbia new gas price is equivalent to approximately $1.20 per thousand cubic feet in Alberta.

* * *

One of Dome's greatest assets is the high caliber of its employees. Their resourcefulness and dedication have made the Company what it is today. The Board of Directors is grateful for their efforts and commends them for their performance in 1976.

J. P. GALLAGHER
Chairman of the Board

W. E. RICHARDS
President

March 11, 1977

EXPLORATION AND DEVELOPMENT REVIEW

EXPLORATION

Dome continued to be one of Canada's most active explorers with about 1,380,000 feet of hole drilled in Dome interest wells during 1976. The Company participated in the drilling of 333 wells (133 net working interest plus 74 royalty interest wells) during the year, compared with 285 wells (138 net working interest plus 27 royalty interest) in 1975.

Ninety-five exploratory wells were drilled resulting in five oil and 40 gas discoveries. (According to industry standards, a discovery is any successful well drilled more than one mile from a well capable of production. Consequently, only a limited number of discoveries are of major significance.) Seventy-four wells were drilled at no cost to Dome as a result of farmout agreements with other companies.

Alberta and British Columbia

Exploration drilling in Alberta and British Columbia during 1976 resulted in one oil and 36 gas discoveries as shown on the accompanying map. The most significant areas of activity are as follows:

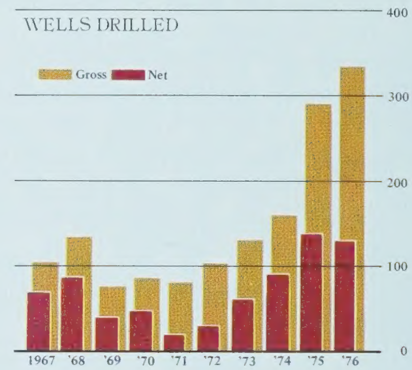
- At Boyer - 340 miles northwest of Edmonton, the Company completed four gas wells and additional drilling will be undertaken on a 20,480 gross acre (17,760 net acres) block.
- At Brazeau - 90 miles southwest of Edmonton, two successful gas wells were drilled on a 22,080 gross acre (14,351 net acres) holding.
- At Gordondale - 280 miles northwest of Edmonton, the Company completed a gas discovery on a 16,160 gross acre (15,250 net acres) permit.
- At Hotchkiss - 300 miles northwest of Edmonton, five gas wells were completed and a six well program was scheduled to commence in early 1977. Dome has 14,240 gross acres (4,026 net acres) in the area.
- At Saddle Hills - 250 miles northwest of Edmonton, a dual zone gas discovery was completed late in the year in an area where the Company has an interest in 24,960 gross acres (14,651 net acres).
- At South Kaybob - 135 miles northwest of Edmonton, two dual zone and four single zone gas discoveries were made on a 37,360 gross acre (18,495 net acres) holding.
- At Silver Valley - 300 miles northwest of Edmonton, a gas well was completed two miles north of previous drilling activity. Dome has an interest in 37,760 gross acres (16,340 net acres).
- At Buick Creek - 50 miles northwest of Fort St. John, the Company drilled two dual zone and four single zone gas wells in an area where Dome has an 80% interest in 25,548 gross acres.
- At Silver - 100 miles northwest of Fort St. John, two gas wells were completed in a 39,107 gross acre (18,341 net acres) holding.

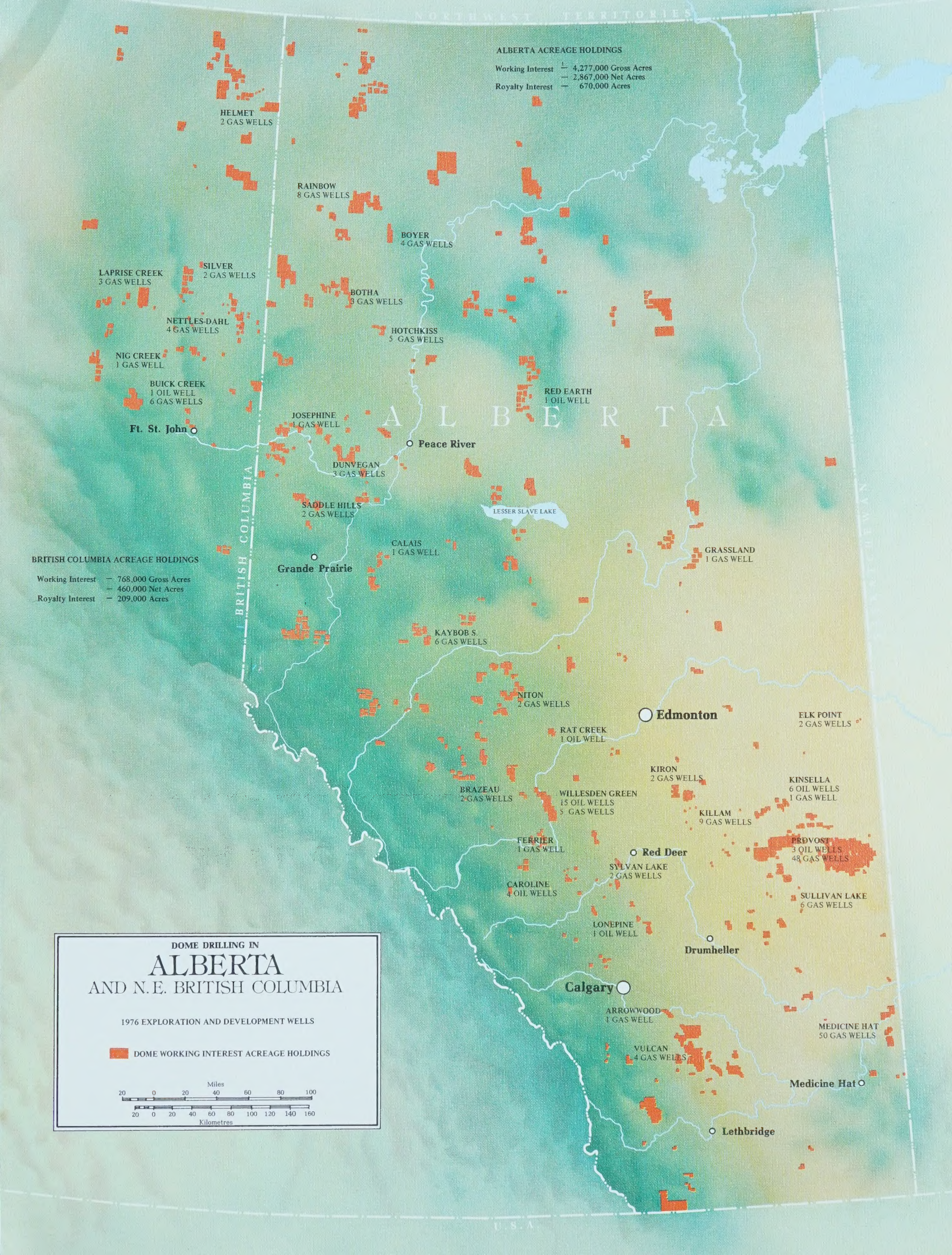
Saskatchewan

In south central Saskatchewan, Dome participated in a five-well deep drilling program which resulted in two oil discoveries. The Company believes there is good hydrocarbon potential in southern Saskatchewan, especially in the deeper horizons, but development of this potential is dependent upon reasonable economic incentives being provided under the Crown royalty system.

United States

In the San Juan Basin of New Mexico, Dome drilled two oil discoveries and a successful development well in two pools. Early in 1977, a third discovery was made in a separate pool. The Company has an interest in 327,275 gross acres (40,137 net acres) in the area.




DOME DRILLING IN
ALBERTA
AND N.E. BRITISH COLUMBIA
1976 EXPLORATION AND DEVELOPMENT WELLS
DOME WORKING INTEREST ACREAGE HOLDINGS
Miles
20 0 20 40 60 80 100
20 0 20 40 60 80 100 120 140 160
Kilometres
NORTHWEST TERRITORIES
ALBERTA ACREAGE HOLDINGS
Working Interest — 4,277,000 Gross Acres
— 2,867,000 Net Acres
Royalty Interest — 670,000 Acres
BRITISH COLUMBIA ACREAGE HOLDINGS
Working Interest — 768,000 Gross Acres
— 460,000 Net Acres
Royalty Interest — 209,000 Acres
HELMET
2 GAS WELLS
RAINBOW
8 GAS WELLS
BOYER
4 GAS WELLS
LAPRISE CREEK
3 GAS WELLS
SILVER
2 GAS WELLS
BOTHA
3 GAS WELLS
NETTLES-DAHL
4 GAS WELLS
HOTCHKISS
5 GAS WELLS
NIG CREEK
1 GAS WELL
BUICK CREEK
1 OIL WELL
6 GAS WELLS
RED EARTH
1 OIL WELL
A L B E R T A
JOSEPHINE
1 GAS WELL
Ft. St. John
Peace River
DUNVEGAN
3 GAS WELLS
SADDLE HILLS
2 GAS WELLS
LESSER SLAVE LAKE
BRITISH COLUMBIA
CALAIS
1 GAS WELL
GRASSLAND
1 GAS WELL
Grande Prairie
KAYBOB S.
6 GAS WELLS
NITON
2 GAS WELLS
Edmonton
ELK POINT
2 GAS WELLS
RAT CREEK
1 OIL WELL
KIRON
2 GAS WELLS
KINSELLA
6 OIL WELLS
1 GAS WELL
BRAZEAU
2 GAS WELLS
WILLESDEN GREEN
15 OIL WELLS
5 GAS WELLS
KILLAM
9 GAS WELLS
FERRIER
1 GAS WELL
Red Deer
PROVOST
3 OIL WELLS
48 GAS WELLS
SYLVAN LAKE
2 GAS WELLS
CAROLINE
4 OIL WELLS
SULLIVAN LAKE
6 GAS WELLS
LONEPINE
1 OIL WELL
Drumheller
Calgary
ARROWWOOD
1 GAS WELL
MEDICINE HAT
50 GAS WELLS
VULCAN
4 GAS WELLS
Medicine Hat
Lethbridge
U.S.A.

Panarctic's Bent Horn F-72A well - - in which Dome is a participant - - glows in the Arctic darkness on Cameron Island.

Far right: Geophysical Services Incorporated seismic vessel 'Arctic Explorer' conducting an offshore seismic program in the Arctic Islands.

Right: Frozen desert terrain on Ellef Ringnes Island typifies the rugged conditions encountered in the search for petroleum resources in the Arctic.

Arctic Islands

Dome holds 23,935,000 gross acres (12,661,000 net acres) in Canada's Arctic Islands in addition to its 4.26% interest in Panarctic Oils Ltd., which holds oil and gas rights on 48,619,000 gross acres (29,819,000 net acres). To date, 16.1 trillion cubic feet of marketable gas reserves have been proven in this area.

Through Panarctic, Dome participated in the substantial gas field extensions achieved by Panarctic in the Drake and Hecla fields offshore from Melville Island. Panarctic announced its intention to drill two further delineation wells at N.E. Drake P-40 and S.W. Hecla C-58, both Borden Island sand tests, in early 1977. The Drake P-40 offshore well will be located two miles east of a 30,000 gross acre (12,000 net acres) Dome permit. Independent consultants acting for Panarctic estimate that marketable gas reserves amounting to 12.5 trillion cubic feet have been established for these two Melville Island fields.

The Company contributed 7.4% towards the cost of a major gas discovery, Tenn Sun Dome Jackson G-16A, drilled four miles offshore between King Christian and Ellef Ringnes Island. The well encountered a substantial pay thickness and the reservoir is estimated to contain 1.1 trillion cubic feet of gas. The structure partially underlies a 532,000 acre block of permits in which Dome has interests varying from 23% to 46%. Dome's share of gas reserves in this discovery is estimated at over 100 billion cubic feet.

Early in the year, Panarctic completed the third successful, highly productive oil well on Cameron Island, West Bent Horn A-02.

The Arctic Island Offshore Group seismic program, to which Dome is contributing approximately 11% of the cost, concluded the second year of the $42,000,000 three-year program. Approximately 6,000 miles of seismic has been shot to date with a further 2,000 miles planned for 1977. The seismic program has shown up numerous attractive prospects in the inter-island areas.

The first wildcat drilled from the Arctic ocean ice to bring in a new major gas field, the Dome interest well Jackson Bay G-16A is located four miles offshore at an ocean depth of 200 ft. Major owner and operator of the well is Panarctic Oils.

Far Right: A frost-covered grader, illuminated by rig lights and Arctic moonlight, awaits a runway scraping assignment during an exploratory test on Ellef Ringnes Island.

Right: Off-loading cargo from the Percy M. Crosbie at Rea Point, Melville Island.

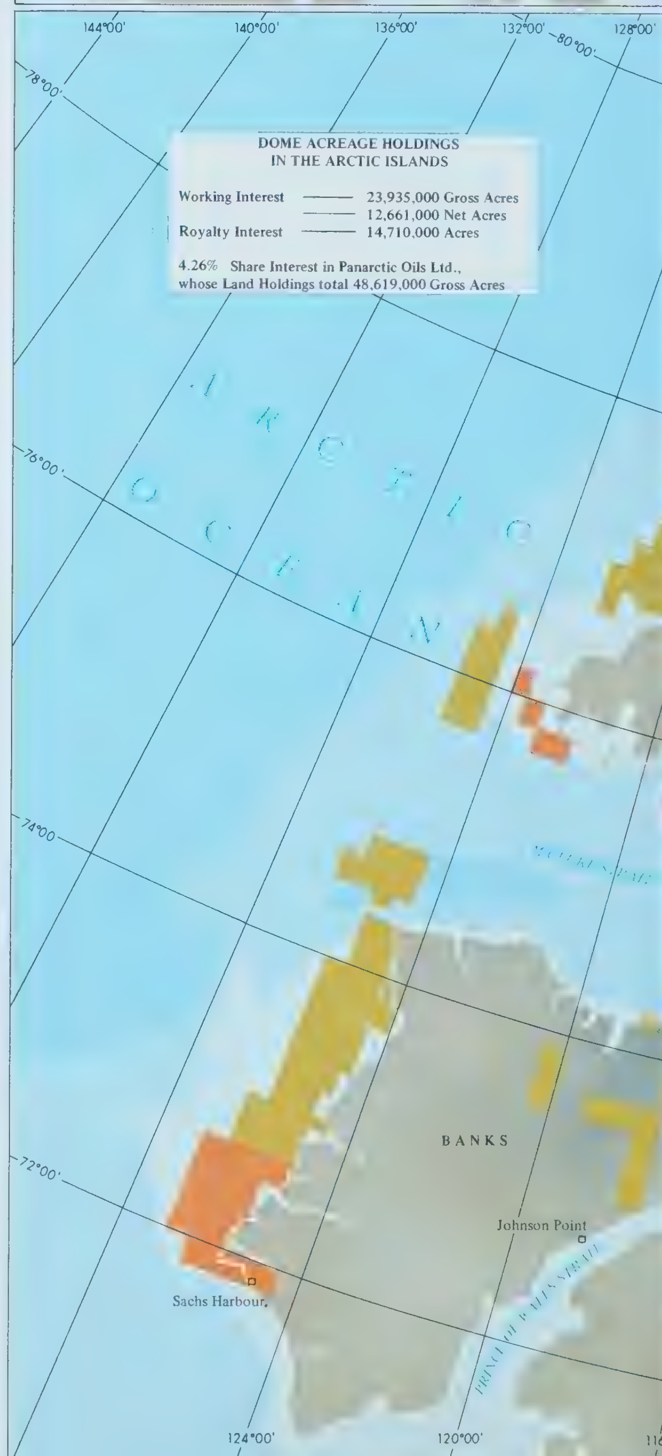




ARCTIC ISLANDS

MILES
50 0 50 100
50 0 50 100 150
KILOMETRES

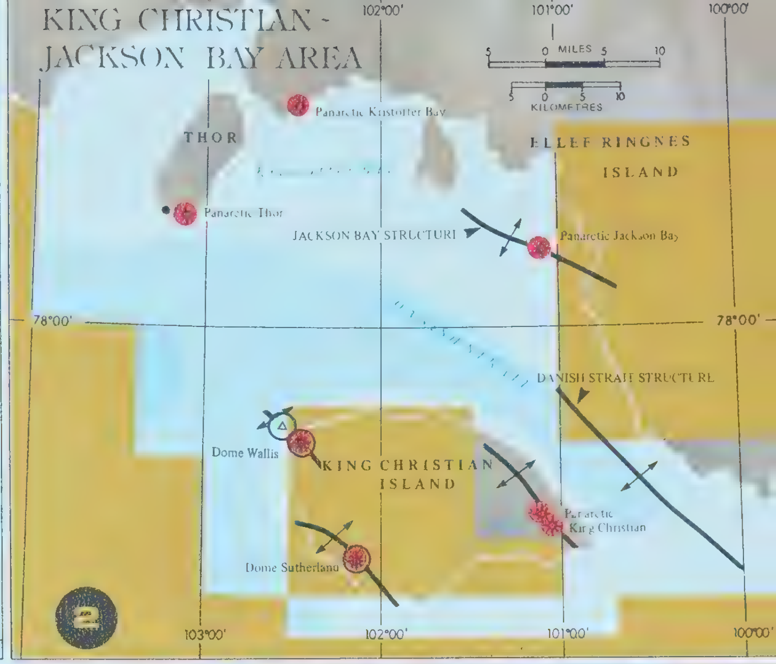
DOME WORKING INTEREST ACREAGE
DOME ROYALTY INTEREST ACREAGE
LOCATION OR DRILLING WELL
PROPOSED LOCATION
OIL WELL
GAS WELL
OIL SHOW
SEA LEVEL
200 METRES
500 METRES



Land Holdings Summary

AREA	1976			1975		
	Working Interest			Working Interest		
	Gross Acres	Net Acres	Royalty Acres	Gross Acres	Net Acres	Royalty Acres
Alberta	4,277,000	2,867,000	670,000	3,932,000	2,681,000	679,000
British Columbia	768,000	460,000	209,000	611,000	330,000	365,000
Saskatchewan	301,000	119,000	85,000	293,000	125,000	85,000
Manitoba	79,000	35,000	—	79,000	35,000	—
Ontario and Hudson Bay	—	—	2,995,000	—	—	8,565,000
Arctic Islands	23,935,000	12,661,000	14,710,000	24,424,000	12,933,000	15,966,000
Beaufort Sea	7,398,000	3,499,000	3,167,000	6,404,000	2,496,000	3,167,000
Mackenzie Valley	4,603,000	1,627,000	3,560,000	4,276,000	1,099,000	3,693,000
Canadian East Coast	988,000	988,000	1,169,000	1,658,000	1,256,000	1,839,000
Alaska	144,000	95,000	—	191,000	130,000	—
Other United States	629,000	172,000	5,000	391,000	132,000	5,000
North Sea (U.K.)	51,000	6,000	—	51,000	6,000	—
Total	43,173,000	22,529,000	26,570,000	42,310,000	21,224,000	34,364,000


SABINE PENINSULA
MILES
KILOMETRES
109°00'
108°00'
76°30'
HECLA GAS FIELD
DRAKE POINT GAS FIELD
SABINE PENNSULA
1
111°00'
110°00'
109°00'
108°00'


KING CHRISTIAN - JACKSON BAY AREA
MILES
KILOMETRES
102°00'
101°00'
100°00'
Panarctic Kristoffer Bay
THOR
ELLEF RINGNES ISLAND
Panarctic Thor
JACKSON BAY STRUCTURE
Panarctic Jackson Bay
78°00'
DANISH STRAIT STRUCTURE
Dome Wallis
KING CHRISTIAN ISLAND
Panarctic King Christian
Dome Sutherland
2
103°00'
102°00'
101°00'
100°00'

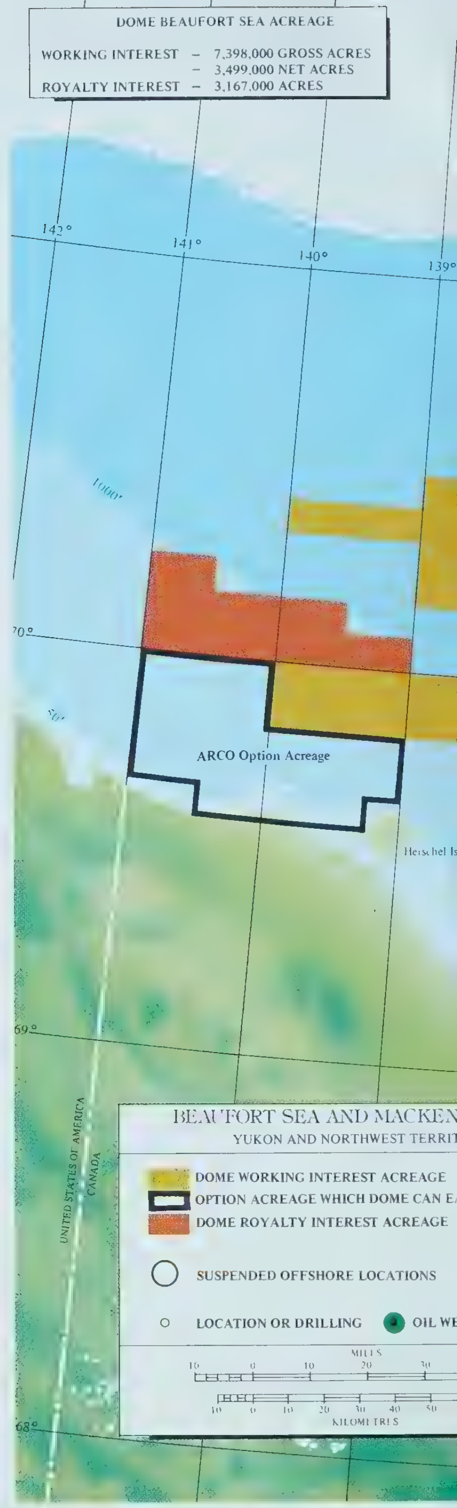

124°00'
120°00'
116°00'
112°00'
108°00'
104°00'
100°00'
96°00'
92°00'
88°00'
84°00'
80°00'
80°00'
76°00'
72°00'
68°00'
ELLESMERE
Eureka
Fosheim Pen.
GREENLAND
78°00'
Meighen
AXEL HEIBERG
Isachsen
ELLEF RINGNES
AMUND RINGNES
BORDEN
Bjorne Pen.
Brock
MACKENZIE KING
CORNWALL
GRAHAM
ELLESMERE
76°00'
PRINCE PATRICK
Emerald
Grinnell Pen.
CAMERON
VANIER
BATHURST
DEVON
MELVILLE
74°00'
Rea Point
Byam Martin
CORNWALLIS
Resolute
Dundas Pen.
Winter Harbour
Russell
SOMERSET
Brodeur Pen.
STEFANSSON
72°00'
PRINCE OF WALES
VICTORIA
112°00'
108°00'
104°00'
100°00'
96°00'
92°00'
88°00'
84°00'

Beaufort Sea

Geological information derived from drilling activities during the summer of 1976 tends to confirm Dome's belief that the Beaufort Sea is rich in hydrocarbon source material comparable to many of the prolific hydrocarbon producing areas in the world. Over 30,000 miles of exploratory seismic work has been conducted in the Beaufort Sea and a large number of structures has been identified under Dome interest acreage. Young sediments which provide reservoirs for hydrocarbons thicken rapidly in an offshore direction in the Beaufort Sea basin, and are the main target of the Company's offshore drilling program. The structures are large in areal extent and structural relief, which enhances the possibilities of major hydrocarbon accumulations. While the area is prone to high pressures at shallow depths, the experience gained in 1976 will assist in preventing and overcoming future drilling problems.

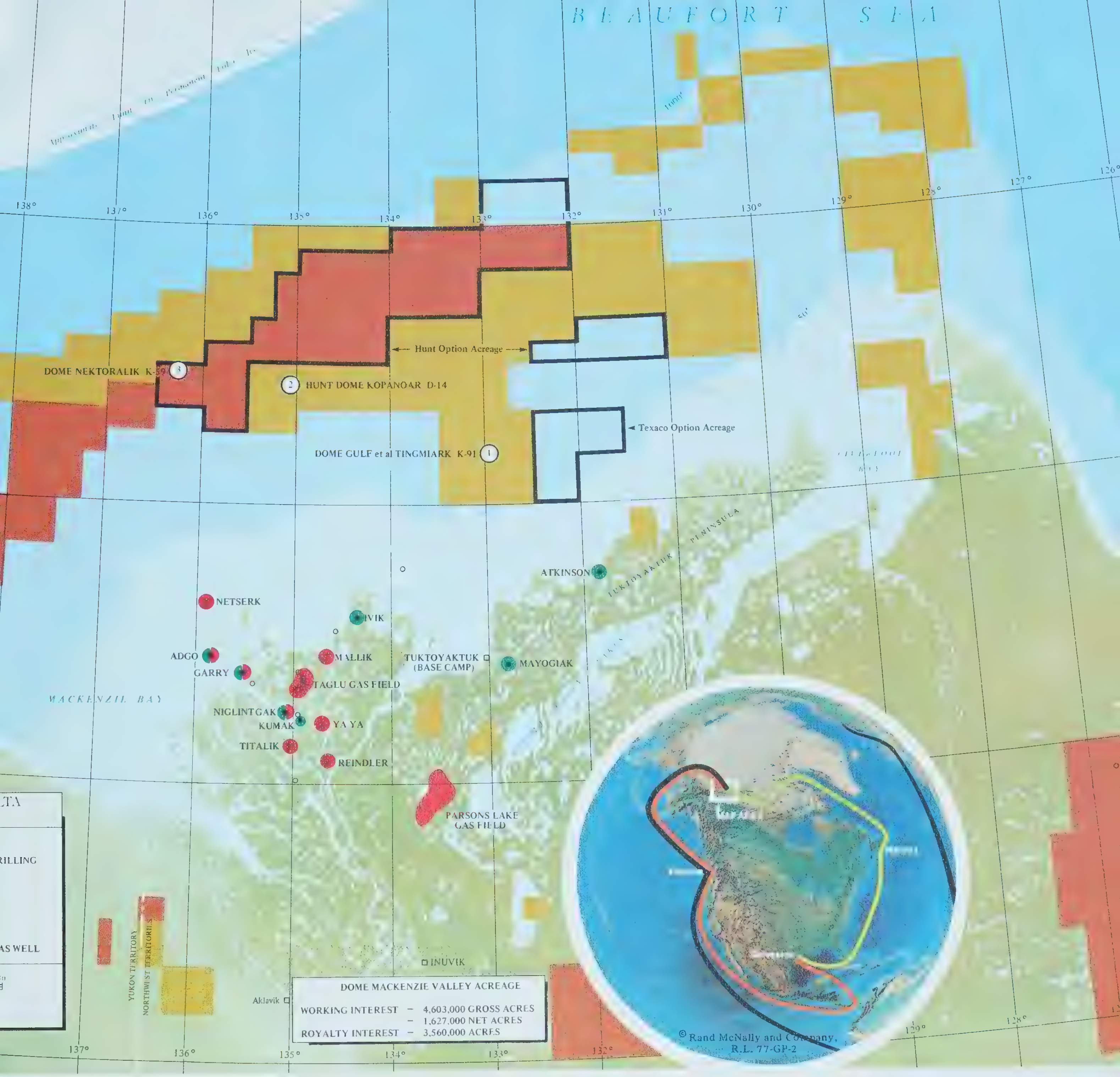
Two wells were licensed by the Federal Government in 1976, the Dome Gulf et al Tingmiark K-91 and the Hunt Dome Kopanoar D-14. Drilling commenced in early August. The Tingmiark well, located 30 miles offshore in approximately 100 feet of water, encountered a high pressure gas zone at 10,000 feet. Further penetration of this zone was not possible before the end of the drilling season and the well was suspended with temporary cement plugs to permit re-entry at a later date.

The Kopanoar well was located 90 miles northwest of Tuktoyaktuk in 182 feet of water. The well was drilled to a depth of 3,760 feet, but encountered a high pressure fresh water flow from a zone at a shallow depth. This resulted in the eventual weakening of the surface casing and the operator, Hunt International, elected to plug and abandon the well. A replacement well was spudded 600 feet from the original site and casing



Left: Beaufort Sea exploratory wells are fitted with 30 ft. high blow out preventers, each with six separate means of controlling well pressure at the sea floor.

Right: About three-quarters of the 113 natives employed by Canmar came from Tuktoyaktuk, shown in this aerial photo, the Arctic settlement closest to Canmar's drilling operation in the offshore Beaufort Sea.



HISTORIC PASSAGES OF THE CANMAR DRILLSHIPS

EXPLORER I - Galveston, Texas to Victoria, B.C. and thence to the Beaufort Sea around Point Barrow.

EXPLORER II - 7,000 mile passage from Galveston to the Beaufort Sea via Halifax and the Northwest Passage (the first commercial vessel to do so).

EXPLORER III - Norway to Victoria via the Magellan Straits and thence to the Beaufort Sea with Explorer I.





Left: Canmar technicians install a weather station on pack-ice in the Beaufort Sea.

Right: Canmar Supplier secures alongside Explorer III during drilling operations at Kopanoar, 90 miles northwest of Tuktoyaktuk.

Ice conditions such as these were not uncommon, yet posed no serious difficulty for Canmar Carrier and other vessels in the Canmar fleet.

Left: Shipborne roughnecks break out drill pipe using the same techniques as drill crews in conventional drilling operations ashore.

Right: Explorer I and Explorer III, with a more traditional form of Arctic transportation in the foreground.

was set at 1,250 feet prior to the end of the 1976 drilling season.

At a third location, Dome Nektoralik K-59, 28 miles northwest of the Kopanoar location, casing was set to 1,110 feet before season's end. In addition, preparatory work was conducted at four other drilling sites.

At year-end, the Company held varying interests in approximately 7.4 million acres in the Beaufort Sea.

CANADIAN MARINE DRILLING LTD.

Exploratory drilling of the Company's permit acreage in the Beaufort Sea began during 1976 using the Canmar fleet of three ice-reinforced drillships and five icebreaker support ships.

Two of the drillships and the support vessels entered the Beaufort Sea via the western route around northern Alaska. Although difficult ice conditions were encountered, the vessels arrived without major incident and began drilling operations in early August, about midway through the normal Beaufort Sea drilling season. The third drillship was completed later than the first two and entered the Beaufort Sea in September via the Northwest Passage. Two additional ice-reinforced supply vessels have been purchased to provide support for this drillship.

Canmar's first season of operations in the Beaufort Sea was both successful and eventful. The specially designed equipment and drilling systems functioned well, and the season's experience added to the Company's unique capability to drill in Arctic offshore waters. The high cost of drilling in ice-infested waters is due to the limited utilization of the expensive and highly specialized equipment caused by the short drilling season.

Canmar has established a capable team of scientists to conduct a broad research and development program to extend materially the Arctic drilling and marine transportation season.

During the 1976 drilling season, the Company completed the development of oil spill contingency equipment, established a comprehensive oil spill contingency plan, and undertook a number of testing programs. Since late 1974, over \$3 million have been spent by industry and government on oil spill countermeasures designed exclusively for the Beaufort Sea.

In its first season of operations, Canmar employed over 500 marine, drilling and support personnel, of whom 127 were northern residents. Over \$3.5 million were expended for wages, supplies and services to businesses operating in the Mackenzie Delta and Beaufort Sea area.

Planning for the 1977 season is well advanced and representatives of Canmar are working with a variety of government agencies to ensure further improvements, both from a technical viewpoint and with respect to social and economic advantages to the region.

DEVELOPMENT

Dome conducted an active development drilling program in 1976 which resulted in an additional 165 gross gas wells (67 net wells) and 31 gross oil wells (21 net wells). Areas of significant interest are as follows:

Oil

At Kinsella, in east central Alberta, six oil wells were completed capable of producing 200 barrels per day.

At Caroline, 60 miles northwest of Calgary, four oil wells were drilled adding a further 300 barrels per day of producing capacity.

At Willesden Green, about 100 miles northwest of Calgary, Dome obtained approval to institute a miscible flood scheme by injecting ethane into the reservoir in 1977 and 1978. This should materially increase future oil production and recoverable reserves. In July, 1976, the Company applied to the Alberta Government for more favourable royalty treatment. In early 1977, the Government indicated its approval of Dome's application.

Natural Gas

At Provost, in east central Alberta, a 50-well development program was completed, together with over 70 miles of associated gathering system, adding approximately 12 million cubic feet per day of sales gas to the Company's 1977 production capacity.

At Vulcan, approximately 60 miles southeast of Calgary, development drilling resulted in an additional 8.5 million cubic feet per day of gas feedstock for the Company's Vulcan gas plant. The plant is currently being expanded to process an additional 30.5 million cubic per day. One-third of this additional capacity will be for Dome's account.

At Josephine-Eureka, 300 miles northwest of Edmonton, development drilling continued in 1976. A central hydrocarbon dewpoint and compression plant is now in the design stage, and Dome has nominated a 20 million cubic feet per day share of the 50-60 million cubic feet per day total plant capacity.

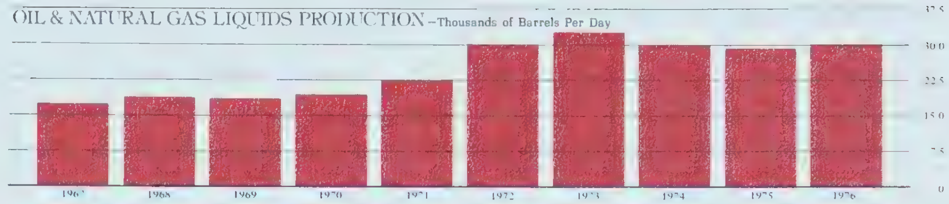
At Niton, northeast of Edson, Alberta, development drilling has resulted in Dome nominating 6 million cubic feet per day of capacity in a new gas plant to be built in the area.

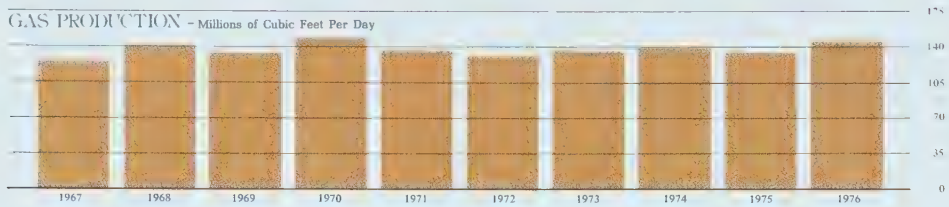
Many of these natural gas sales projects will not be on stream until late in 1977. Deliveries from these projects may be temporarily restricted because of the current oversupply of Alberta gas available for market.

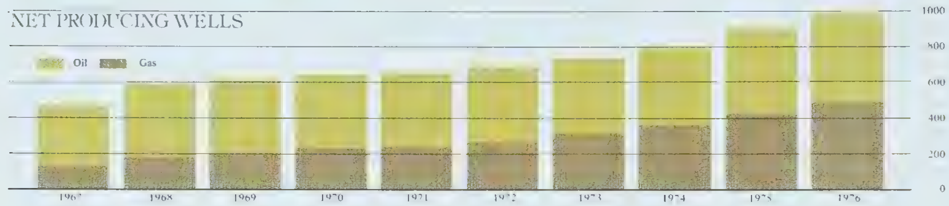
At Buick Creek in British Columbia, compression facilities were installed during the year; and two wells, delivering a total of 5 million cubic feet per day, were placed on production in early 1977.

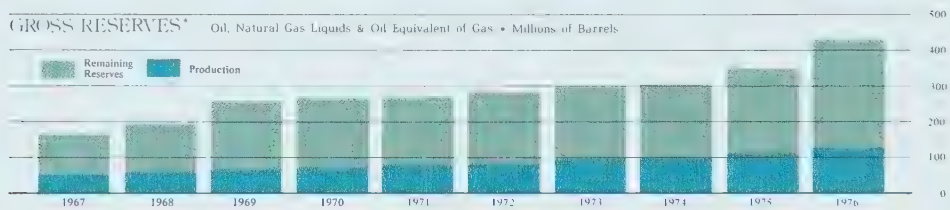
At Bradshaw, in southeast Kansas, Dome undertook a development program that in 1977 should deliver in excess of 3 million cubic feet per day net to the Company. An intrastate sale at $1.55 per thousand cubic feet has been arranged for the Company's share of production.

This pump and drilling rig mark the site of Dome's oil discovery in the San Juan Basin of New Mexico.









* Excludes Arctic Gas Reserves and Heavy Oil Reserves

Production & Reserves

Production of crude oil and natural gas liquids in 1976 was 11,028,000 barrels (30,130 barrels per day), compared to 10,672,000 barrels (29,238 barrels per day) in 1975.

Natural gas production in 1976 amounted to 52.4 billion cubic feet (143.1 million cubic feet per day), an increase over the 49.4 billion cubic feet (135.3 million cubic feet per day) produced in 1975.

After deducting 1976 production, recoverable reserves at year-end amounted to 307,600,000 barrels of crude oil, natural gas liquids and oil equivalent of gas, compared with 239,600,000 barrels the previous year. (The oil equivalent of gas is determined on the basis of relative prices.)

Excluded from these reserve totals are gas reserves in the Arctic Islands, estimated at over 1 trillion cubic feet, and substantial heavy crude oil reserves in Alberta. All reserve figures are stated as gross since it is not practical to project full-life royalty rates given the numerous and variable factors prevailing in the various jurisdictions.

At December 31, 1976, 282,900 gross acres (97,400 net acres) were under oil production and 955,200 gross acres (558,300 net acres) were under natural gas production.

Natural Gas Liquids (NGL)

Dome is the operator and a major owner of a natural gas liquids (NGL) transportation and distribution system extending from Alberta to Ontario and the eastern United States.

The Company produces NGL for its own account in gas processing plants operated by Dome and by others, and purchases NGL produced for the account of others. Dome transports these NGL via the Company's gathering pipelines in Alberta (Co-Ed pipeline) and Saskatchewan to storage facilities located at Fort Saskatchewan, Alberta, and Kerrobert, Saskatchewan. From these storage locations, the NGL are batched through Interprovincial Pipe Line to the Company's fractionation and storage facilities at Sarnia, Ontario.

At Sarnia, the delivered NGL are fractionated into the principal components of propane, butane and condensate. These products are marketed in Eastern Canada and in the United States. The NGL System incorporates delivery pipelines from the Sarnia facilities to Consumers Power Company's synthetic natural gas plant at Marysville, Michigan, Columbia LNG Corporation's synthetic natural gas plant at Green Springs, Ohio, and Company storage facilities at St. Clair, Michigan. NGL System throughput in 1976 averaged 84,800 barrels per day.

During the year, additional tie-ins were made from new gas processing plants in Alberta to the Co-Ed pipeline. The Dome-operated West Paddle River plant was placed on stream in May, 1976 and is producing about 14 million cubic feet per day of residue gas and 500 barrels per day of NGL. Dome's interest in the plant is 23%.

Late in the year, Dome and a partner purchased the interest of Goliad Oil and Gas Company in the solution gas gathering system and NGL extraction facilities serving the Pembina field, Alberta. This acquisition will supplement the Company's supply of NGL for eastern markets.

Total natural gas liquids sales averaged 75,407 barrels per day during 1976.

Above: Edmonton Liquid Gas Extraction and Fractionation Plant.

Top: A.N.G. Cochrane Extraction Plant in West Central Alberta.

Left: Dome Fractionation Plant, Sarnia, Ontario.

DOME NATURAL GAS LIQUIDS SYSTEM
DOME INTEREST FACILITIES
N.G.L. PLANT
EXISTING PIPELINE
UNDERGROUND STORAGE
CONNECTING FACILITIES
N.G.L. PLANT
EXISTING PIPELINE
UNDERGROUND STORAGE
Miles
20 0 20 40 60 80 100
20 0 20 40 60 80 100 120 140 160
Kilometres
CANADA
MAP AREA
EDMONTON
U. S. A.
SARNIA
MITSUE
MITSWAN PIPELINE SYSTEM
KAYBOB
KAYBOB S.
PEACE RIVER PIPELINE
IMPERIAL PIPELINE
WEST PADDLE RIVER
STRATHCONA
FT. SASKATCHEWAN
EDMONTON LIQUID GAS
EDMONTON
DEVON
PEMBINA
BUCK LAKE
CO-ED PIPELINE SYSTEM
HARDISTY
HUGHENDEN
Red Deer
SYLVAN LAKE
KERROBI
Drumheller
CALGARY
ALBERTA
BRITISH COLUMBIA
EMPRESS

Ethane Project and Cochin Pipeline System

The Ethane Project provides the foundation for an Alberta-based petrochemical industry. Ethane will be recovered from Alberta natural gas streams and used as feedstock for manufacturing ethylene which, in turn, will be used as a basic feedstock by a number of Alberta manufacturers to produce ethylene-based petrochemicals such as polyvinyl chloride and ethylene glycol.

Ethane and ethylene surplus to Alberta's requirements will be exported to eastern Canadian and United States markets via the Cochin Pipeline System, operated by Dome. Cochin will also transport specification propane and butane from Alberta to eastern markets.

Total cost of the ethane recovery facilities, the Alberta ethylene and derivative petrochemical plants, and the pipelines and storage associated with the Ethane Project and the Cochin Pipeline System, is estimated at $1.5 billion. Dome will not participate in the ethylene and derivative plants but will own over one-third of the ethane recovery and pipeline facilities. The Company will operate two of the ethane recovery plants and essentially all of the pipeline facilities.

Although certain of Dome's present facilities, such as the Empress ethane extraction plant, will be integrated into the Ethane Project and the Cochin Pipeline System, the Company will invest about $150 million in new facilities. Arrangements for term financing of this investment were made during the year.

Ethane will be recovered at gas processing facilities located at Empress, Cochrane and Edmonton, Alberta. Dome's Empress plant, which was designed with ethane extraction capability and placed on stream in 1971, will provide supply for the Willesden Green miscible flood starting in early 1977. Work on the Dome-operated Edmonton plant, the Cochrane plant and the new Empress plant is in the detailed engineering stage.

Construction started in 1976 on the 390 miles of Dome-operated ethane gathering lines required to deliver 80,000 barrels per day of ethane to an ethylene plant under construction at Joffre, Alberta, and to Cochin's Fort Saskatchewan terminal. About 45% of the ethane gathering system was completed in 1976. The remainder will be completed in 1977. Underground storage is now being developed by Dome and others at Fort Saskatchewan, Windsor, and Sarnia for ethane, ethylene and propane.

Studies were commenced to determine receiving and delivery terminal requirements for the movement of specification propane and butane in Cochin from Fort Saskatchewan to markets located primarily in the U.S. Midwest. Results indicate that possibly five delivery terminals will be required in U.S. market areas.

During the year, Dome executed the basic Cochin agreements with its partners, Dow Chemical of Canada, Limited and The Alberta Gas Trunk Line Company Limited, and received major governmental approvals.

Winter construction of Cochin pipeline river crossings commenced in late 1976, and orders for pipe and major equipment were placed. Most of the pipeline construction will occur in 1977 and startup is scheduled for early 1978.

About 45% of the planned 390 miles of Dome-operated Alberta ethane gathering lines were completed in 1976, including this section, about 35 miles southeast of Red Deer, Alberta.

FINANCIAL REVIEW

Management's Discussion and Analysis of the Company's Financial Statements for 1976 and 1975

The Company continued its growth in 1976, with net earnings amounting to $55,254,000 ($4.80 per share) as compared to $41,120,000 ($3.65 per share) in 1975. Earnings before deferred income taxes amounted to $91,275,000 ($7.94 per share) in 1976 as compared to $65,013,000 ($5.78 per share) in 1975.

Provision for deferred income taxes was $36,021,000 in 1976. The deferred income taxes of $125,639,000 appearing on the Company's balance sheet as at December 31, 1976 do not represent an obligation of the Company. This amount simply represents the accumulated provision, from the earnings of the Company in prior years, for income taxes which have been indefinitely deferred as a result of the Company having been permitted to write off exploration and other capital expenditures for income tax purposes more rapidly than they are depreciated or depleted for financial accounting purposes.

Provided the Company maintains a modest oil and gas exploration and capital investment program, it is unlikely that the accumulated deferred income taxes will become payable.

Total revenue increased 64% to $385,490,000. Crude oil and natural gas sales after royalties totaled $55,523,000 as compared to $39,036,000 in 1975. Propane and other natural gas liquids sales increased in 1976 by 49% to $264,036,000. Revenue from pipeline tariffs at $14,694,000 for 1976 remained essentially constant as compared to 1975. Marine drilling and other income increased to $51,237,000 from $3,777,000 in 1975, the result of Canmar drilling operations commencing in the Beaufort Sea during 1976.

Cost of product in 1976 was $212,977,000, an increase of $89,793,000, and the result of increased sales volumes and increased prices for natural gas liquids.

Producing, processing, operating and marketing expenses increased from $19,327,000 to $40,361,000 primarily due to commencement of operations in the Beaufort Sea by the Canmar drilling division.

Interest expense in 1976 was $18,068,000 as compared to $11,058,000 in 1975. Long term debt was increased during 1976 by approximately $133,000,000 which increased interest costs charged to operations. A further $9,945,000 in interest costs related to the financing of new projects were capitalized during 1976.

Depreciation and depletion expense for 1976 amounted to $18,214,000, an increase of $4,526,000 due primarily to the Canmar drilling division starting operations during 1976.

Cash flow generated from operations amounted to $109,806,000 ($9.55 per share) as compared with $80,356,000 ($7.14 per share) in 1975, a reflection of the Company's growth in 1976. Additional funds were provided by issues of long term debt totaling $160,642,000, dividends received of $380,000 and issues of common stock for $27,465,000 (163,608 shares for cash of $3,465,000 and 700,000 shares for a deemed consideration of $24,000,000 in exchange for 600,000 common shares of Dome Mines Limited). Thus, total funds made available during 1976 were $298,293,000.

Funds were applied to expenditures for property, plant and equipment in the amount of $169,919,000, reduction of long term debt of $28,013,000, investment in Dome Mines Limited of $75,888,000 and other investments of $5,392,000.

During the year, the Company acquired 29.5% of the outstanding common shares of Dome Mines Limited for a consideration of 700,000 of its own common shares at a recorded value of $24,000,000 and a cash consideration of approximately $52,000,000. The Company uses the equity method of accounting for its investment in Dome Mines Limited.

Capital expenditures during 1976 consisted of exploration, land acquisition and development costs of $74,965,000, plant, pipeline and related facility costs of $39,618,000, and drillship and supply vessel costs of $93,559,000.

The Company completed 1976 with working capital of $66,331,000.

AUDITORS' REPORT · *To the Shareholders of Dome Petroleum Limited.*

We have examined the consolidated balance sheet of Dome Petroleum Limited as at December 31, 1976 and 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and 1975 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis during the years.

Calgary, Canada.
March 23, 1977.

CLARKSON, GORDON & CO.
Chartered Accountants.

CONSOLIDATED STATEMENT OF EARNINGS

YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
REVENUE	$385,490,000	$234,669,000
EXPENSE		
Cost of product	212,977,000	123,184,000
Producing, processing and marketing	40,361,000	19,327,000
General and administrative	4,595,000	2,399,000
Depreciation	12,956,000	10,305,000
Depletion	5,258,000	3,383,000
Interest on long term debt	17,153,000	9,755,000
Other interest	915,000	1,303,000
	294,215,000	169,656,000
EARNINGS BEFORE DEFERRED INCOME TAXES	91,275,000	65,013,000
Deferred income taxes	36,021,000	23,893,000
NET EARNINGS	$ 55,254,000	$ 41,120,000
PER SHARE		
Earnings before deferred income taxes	$7.94	$5.78
Net earnings	$4.80	$3.65

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
BALANCE AT BEGINNING OF YEAR	$136,621,000	$ 95,501,000
NET EARNINGS	55,254,000	41,120,000
BALANCE AT END OF YEAR	$191,875,000	$136,621,000

See accompanying summary of significant accounting policies and notes.

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1976 AND 1975

ASSETS	1976	1975
CURRENT:		
Cash and term deposits	$ 25,692,000	$ 24,975,000
Accounts receivable (Note 10)	135,246,000	78,501,000
Inventories of product	35,955,000	41,332,000
Materials and supplies	19,450,000	5,019,000
	216,343,000	149,827,000
INVESTMENTS AND ADVANCES (Note 1)	49,120,000	8,971,000
PROPERTY, PLANT AND EQUIPMENT , at cost (Note 2)	706,021,000	533,059,000
Less accumulated depreciation and depletion	103,365,000	82,108,000
	602,656,000	450,951,000
DEPOSITS AND LONG TERM RECEIVABLES (Note 4)	7,555,000	3,932,000
	$875,674,000	$613,681,000

LIABILITIES AND SHAREHOLDERS' EQUITY	1976	1975
CURRENT:		
Bank loans	$ 19,293,000	$ —
Accounts payable	92,276,000	73,856,000
Advances on drilling contract	5,791,000	10,785,000
Long term debt due within one year	32,652,000	17,936,000
	150,012,000	102,577,000
LONG TERM DEBT (Note 3)	372,391,000	239,762,000
DEFERRED INCOME TAXES	125,639,000	88,618,000
SHAREHOLDERS' EQUITY		
Capital (Note 4)		
Authorized - 15,000,000 common shares of no par value		
Issued - 12,114,526 common shares (1975 - 11,250,918)	73,568,000	46,103,000
Retained earnings	191,875,000	136,621,000
	265,443,000	182,724,000
Less Dome Petroleum's pro rata interest in its shares held by Dome Mines (Note 1)	37,811,000	
	227,632,000	182,724,000
	$875,674,000	$613,681,000

ON BEHALF OF THE BOARD:

Director.

Director.

See accompanying summary of significant accounting policies and notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEARS ENDING DECEMBER 31, 1976 AND 1975

	1976	1975
FUNDS WERE PROVIDED BY:		
Operations		
Net earnings	$ 55,254,000	$ 41,120,000
Add charges not requiring an outlay of funds including depreciation, depletion and deferred income taxes	55,235,000	39,236,000
Less equity in earnings of affiliates	(683,000)	—
Cash flow from operations	109,806,000	80,356,000
Dividends received	380,000	—
Issues of long term debt	160,642,000	156,973,000
Issues of common shares	27,465,000	41,000
	298,293,000	237,370,000
FUNDS WERE USED FOR:		
Expenditures for property, plant and equipment	206,858,000	189,301,000
Less amounts contributed through participation agreements (Note 5)	36,939,000	44,598,000
	169,919,000	144,703,000
Reduction of long term debt	28,013,000	28,143,000
Investment in Dome Mines Limited	75,888,000	—
Investment in Panarctic Oils Ltd.	1,284,000	1,603,000
Increase in deposits, long term receivables and other investments	4,108,000	2,426,000
	279,212,000	176,875,000
INCREASE IN WORKING CAPITAL	$ 19,081,000	$ 60,495,000

See accompanying summary of significant accounting policies and notes.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DECEMBER 31, 1976 AND 1975

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and include the accounts of Dome Petroleum Limited and its subsidiary companies, each of which is wholly owned. The excess of the consideration paid for the shares of subsidiaries over their net book values at date of acquisition has been attributed to property, plant and equipment.

FOREIGN CURRENCY TRANSLATION

The accounts of foreign subsidiaries are translated into Canadian dollars on the following basis:

Current assets and current liabilities at the rate of exchange prevailing at the balance sheet date;

Long term assets and liabilities at rates prevailing on the date they were acquired or incurred;

Revenue and expense items (with the exception of depletion and depreciation which are at the rates of exchange used for translation of the related assets) at average rates for the year;

The resulting gains or losses are included in earnings.

INVENTORY VALUATIONS

Inventories of product are valued at the lower of cost and net realizable value. Materials and supplies are valued at average cost.

INVESTMENTS AND ADVANCES

The Company accounts for its investments in corporate joint ventures and effectively controlled non-subsidiary companies on the equity method. Under this method the investment is carried at cost plus the related equity in undistributed earnings. The Company's share of the earnings or losses of these companies is reflected currently in earn-

ings rather than when realized through dividends.

Other investments are carried at cost, and the Company's interest in the net earnings of these companies is reflected in income when realized through dividends.

PROPERTY, PLANT AND EQUIPMENT

The Company and its subsidiaries follow the full-cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. The Company's share of such costs incurred in drilling in the Beaufort Sea includes depreciation on drillships and related facilities, interest and operating expenses. Provision for depletion of these costs is computed on the composite unit-of-production method based on estimated proven reserves of oil and gas as determined by Company engineers. In the calculation, natural gas reserves and production are converted to equivalent barrels of crude oil based on the relative net sales value of each product.

Oil and gas production facilities and other equipment are depreciated on the unit of production basis.

Plants, buildings, pipelines and related facilities and drillships and supply vessels are depreciated on the straight-line basis at rates designed to amortize the assets over their estimated useful lives.

Tangible assets and major improvements are capitalized and repair costs are charged against income as incurred.

Interest on funds borrowed to finance the construction of major assets is capitalized during the construction period. The capitalized interest is calculated at the effective borrowing rate, and is included in property, plant and equipment for depreciation purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1976 AND 1975

1. INVESTMENTS AND ADVANCES

	1976	1975
	(In thousands of dollars)	
Dome Mines Limited, at cost plus equity in undistributed earnings (quoted market value - $85,500,000)	$76,191	$ —
Less Dome Petroleum's pro rata interest in its shares held by Dome Mines	37,811	—
	38,380	—
Panarctic Oils Ltd. - 4.26% interest at cost	7,838	6,554
Other	2,902	2,417
	$49,120	$ 8,971

During 1976, the Company acquired 1,900,000 common shares of Dome Mines Limited, representing a 29.5% interest therein, in exchange for 700,000 shares of the Company at a recorded value of $24,000,000 and a cash consideration of approximately $52,000,000.

Dome Mines Limited owns 26% of the outstanding shares of the Company resulting in the Company having a pro rata interest of 7.7% in its own shares. Shareholders' equity has therefore been reduced by the allocated portion of the dollar cost of the investment in shares of Dome Mines relating thereto.

The excess of the purchase price over the book values of Dome Mines, other than the holdings in Dome Petroleum, amounted to approximately $24,500,000 and is largely attributable to the value of the mineral reserves held by Dome Mines. This excess is being amortized over the expected life of the mineral assets.

2. PROPERTY, PLANT AND EQUIPMENT

The Company is participating in the construction of ethane extraction and gathering facilities and a pipeline from Alberta to Eastern Canada and the United States. The Company's estimated investment will be $150,000,000 of which approximately $20,000,000 had been expended to December 31, 1976.

Details of the Company's property, plant and equipment are as follows:

	Gross investment at cost	Accumulated depreciation and depletion	Net investment 1976	Net investment 1975
	(In thousands of dollars)			
Plant, buildings, pipelines and related facilities	$205,684	$ 51,356	$154,328	$142,246
Oil and gas properties	223,303	32,878	190,425	155,994
Production facilities and other equipment	78,485	11,727	66,758	47,721
Drillships and supply vessels	198,549	7,404	191,145	104,990
	$706,021	$103,365	$602,656	$450,951

Interest of $9,945,000 (1975 - $5,768,000) related to the financing of assets has been capitalized.

3. LONG TERM DEBT

	1976	1975
	(In thousands of dollars)	
First mortgage bonds		
5¾% Sinking fund bonds due 1978	$ 425	$ 725
5¾% Serial bonds due 1984 (U.S. 1976 - $6,874,000; 1975 - $7,537,000)	7,415	8,130
6½% Bonds due 1985	602	650
Term bank loans, with interest varying from ¾% to 1¼% in excess of the prevailing prime bank rate -		
In Canadian funds, due 1978 to 1988	321,533	225,625
In U.S. funds due 1980 to 1983 (U.S. 1976 - $63,250,000; 1975 - $10,174,000)	61,805	10,345
Liability under royalty acquisition agreement	12,578	11,345
Other	685	878
	405,043	257,698
Less amounts due within one year	32,652	17,936
	$372,391	$239,762

As security for the term bank loans, the companies have issued collateral demand debentures which represent specific and floating charges on various plants, pipelines and related facilities, certain producing properties, the drillships and supply vessels and have pledged product inventories and assigned certain amounts due under natural gas liquids marketing agreements. In addition, 600,000 of the shares of Dome Mines Limited have been pledged as collateral security for certain of the term loans. At December 31, 1976 the Company had an unused line of credit of $120,000,000 under these banking arrangements.

Under the royalty acquisition agreement Dome Petroleum Limited agreed to advance up to $45,000,000 between the years 1974 and 1989, (the amounts to vary in relationship to the proving of reserves) in consideration for a gross overriding royalty interest in certain specified lands. Based upon the expected rate of development expenditures and proving of reserves, the probable timing of the remaining payments ($41,000,000) has been discounted, using an imputed rate of 12% resulting in a present value at December 31, 1976 of $12,578,000 (1975 - $11,345,000).

Approximate installments of long term debt (including sinking fund payments) due in each of the years 1978 to 1981 are:

1978 – $36,891,000	1979 – $40,833,000
1980 – $41,213,000	1981 – $89,189,000

4. CAPITAL

Shares issued during the years ended December 31, 1976 and 1975 were as follows:

	1976		1975	
	(Amounts in thousands of dollars)			
	Shares	Amount	Shares	Amount
Under the Stock Purchase Plan	163,370	$ 3,465	700	$33
In exchange for shares of subsidiary	238	–	493	–
On the exercise of options	–	–	300	8
In exchange for shares of Dome Mines (Note 1)	700,000	24,000	–	–
	863,608	$27,465	1,493	$41

At December 31, 1976, 62,083 shares (1975 - 226,710) were reserved for sale under a Stock Purchase Plan, options granted to employees, the granting of options under the Company's various Stock Option Plans, and shares of a subsidiary not yet presented for exchange. Under the Stock Purchase Plan, 47,130 shares (1975 - 210,500) were reserved and Dome Petroleum has agreed to advance funds to a Trustee to be used by the Trustee for the purchase and immediate resale to employees of Dome Petroleum shares at the average sale price of such shares on the date of the transaction. In addition, Dome Petroleum has made interest free loans to employees to enable them to purchase shares from Dome Petroleum under stock option agreements. At December 31, 1976 $6,525,000 (1975 - $3,689,000) was receivable by Dome Petroleum under the above arrangements and is included in the "Deposits and Long Term Receivables".

5. PARTICIPATION AGREEMENTS

Under various agreements, other companies have agreed to participate in the Company's exploration and development program in order to earn varying interests in the lands covered by the agreements. At December 31, 1976 approximately $140,414,000 had been contributed under the above arrangements, of which $36,939,000 relates to the current year (1975 - $44,598,000).

6. NET EARNINGS PER SHARE

Net earnings per share are based on the weighted monthly average number of shares outstanding of 11,501,000 in 1976 and 11,250,000 in 1975. The weighted average number of shares outstanding in 1976 has been reduced by the Company's pro rata interest in its outstanding shares held by Dome Mines Limited. The exercise of all outstanding stock options and presentation of all the outstanding shares of a subsidiary for exchange would have no material effect on the per share calculation.

7. DIRECTORS AND OFFICERS

The ten members of the Board received $44,140 (Nine members 1975 - $13,792) for their services as directors. Two of the directors are also officers. The aggregate remuneration paid in 1976 to the twelve officers was $713,458 (1975 - $622,323).

8. ANTI-INFLATION PROGRAM

Petroleum, natural gas and natural gas liquids prices are not subject to anti-inflation legislation as they are controlled under the Petroleum Administration Act. The Company is subject to mandatory compliance with legislation which controls employee compensation and shareholder dividends.

9. UNAUDITED REPLACEMENT COST INFORMATION

In accordance with a requirement of the United States Securities and Exchange Commission the Company has provided certain disclosures in Form 10-K with respect to the replacement cost of certain assets and the related effect on net earnings.

10. CONTINGENCY

On March 22, 1977, the Company filed a statement of claim in the Federal Court of Canada against Hunt International Petroleum Company of Canada (a partnership consisting of Messrs. N. Bunker Hunt, W. Herbert Hunt and Lamar Hunt) for recovery of amounts owing for drilling services of which approximately $19,000,000 is included in accounts receivable at December 31, 1976. The Company's counsel is of the opinion that the amount claimed is properly due and owing by Hunt International.

TEN YEAR REVIEW

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE FIGURES)

FINANCIAL	**1976**	**1975**	**1974**
Revenue [after royalties]	385,490	234,669	171,712
Cost of Product	212,977	123,184	80,082
Operating Expense	40,361	19,327	13,969
General and Administrative Expense	4,595	2,399	2,085
Interest	18,068	11,058	12,220
Depreciation and Depletion	18,214	13,688	11,535
Net Earnings Before Deferred Income Taxes	91,275	65,013	51,821
Provision for Deferred Income Taxes	36,021	23,893	23,605
Net Earnings Before Extraordinary Items	55,254	41,120	28,216
Extraordinary Items	–	–	–
Net Earnings for the Year	55,254	41,120	28,216
Average Shares Outstanding	11,501,000	11,250,000	11,234,000
Net Earnings Per Share*	4.80	3.65	2.51
Cash Flow from Operations	109,806	80,356	63,356
Long Term Debt	372,391	239,762	110,932
Capital Expenditures **			
Exploration and Proven Property Acquisitions	48,108	59,447	56,854
Development	26,857	24,051	12,690
Plants, Pipelines and Related Facilities	39,618	30,401	13,607
Drillships and Supply Vessels	93,559	77,005	27,985
Total Capital Expenditures	208,142	190,904	111,136
OPERATING			
Gross Production – Daily Average			
Oil, Gas Liquids and Oil Equivalent of Gas - Barrels	45,600	39,312	37,537
Oil and Gas Liquids - Barrels	30,130	29,238	29,671
Gas Production - MMCF	143.1	135.3	138.3
Gross Reserves***			
Estimated Recoverable Oil, Natural Gas Liquids, and Oil Equivalent of Gas Reserves - Millions of Barrels.	307.6	239.6	211.4
Land Holdings – Acres			
Gross Working Interest	43,173,000	42,310,000	48,640,000
Net Working Interest	22,529,000	21,224,000	21,931,000
Gross Royalty Interest	26,570,000	34,364,000	41,281,000

See page 22 for Management's discussion and analysis of the Summary of Earnings.

* Before Extraordinary Items.

** Includes investment in Panarctic Oils Ltd.

*** Excludes heavy oil reserves at Hughenden and the Athabasca Oil Sands in Alberta, and over one trillion cubic feet of gas reserves in the Canadian Arctic Islands. The oil equivalent of gas is determined on the basis of relative prices.

1973	1972	1971	1970	1969	1968	1967
71,930	52,736	41,510	28,589	23,592	24,561	21,769
24,005	18,125	11,243	4,748	2,109	1,905	2,275
12,317	11,506	9,573	7,186	5,638	5,322	4,669
1,387	878	728	403	273	361	481
6,957	4,869	4,064	3,134	2,796	2,521	2,183
7,059	6,325	5,699	5,091	4,389	4,374	3,800
20,205	11,033	10,203	8,027	8,387	10,078	8,361
8,500	4,554	4,082	4,107	2,985	3,565	3,168
11,705	6,479	6,121	3,920	5,402	6,513	5,193
—	—	417	2,078	—	—	—
11,705	6,479	6,538	5,998	5,402	6,513	5,193
10,745,000	10,316,000	10,235,000	10,153,000	10,098,000	10,045,000	9,945,000
1.09	.63	.60	.39	.53	.65	.52
27,264	17,358	15,902	13,118	12,776	14,452	12,161
94,514	83,079	73,102	74,377	42,637	38,228	29,270
27,691	15,525	8,959	7,466	10,453	9,905	11,626
5,436	3,674	1,596	1,237	4,734	4,735	4,917
39,242	18,253	18,991	30,865	14,010	4,068	4,927
—	—	—	—	—	—	—
72,369	37,452	29,546	39,568	29,197	18,708	21,470
40,108	37,314	30,527	27,942	26,534	27,304	24,507
32,341	29,622	22,648	19,396	18,804	19,005	17,652
136.2	135.3	138.9	148.3	133.4	141.6	119.7
213.7	198.2	196.6	202.6	198.5	143.5	121.0
42,297,000	43,268,000	22,112,000	22,256,000	23,778,000	19,593,000	13,268,000
20,981,000	23,656,000	16,403,000	17,209,000	19,127,000	15,932,000	11,004,000
43,383,000	45,191,000	236,000	240,000	276,000	290,000	279,000

This table shows the high and low price at which shares of the Company sold on the American Stock Exchange during each quarter of 1976 and 1975:

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1976	1975	1976	1975	1976	1975	1976	1975
High	36⅝	28¼	45¾	33¾	42⅜	32	41	37¼
Low	32	17¼	33	22¾	33½	26¾	32½	29⅜

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